

SUMMARY ANALYSIS OF AMENDED BILL

Franchise Tax Board

Author: Rainey Analyst: Kristina E. North Bill Number: SB 1438

Related Bills: See Prior Analysis Telephone: 845-6978 Amended Date: March 13, 2000

Attorney: Patrick Kusiak Sponsor:

SUBJECT: Parent or Teacher Qualifying Educational Expenses Credit

DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as introduced/amended _____.

AMENDMENTS IMPACT REVENUE. A new revenue estimate is provided.

AMENDMENTS DID NOT RESOLVE THE DEPARTMENT'S CONCERNS stated in the previous analysis of bill as introduced 2/7/2000.

FURTHER AMENDMENTS NECESSARY.

DEPARTMENT POSITION CHANGED TO _____.

REMAINDER OF PREVIOUS ANALYSIS OF BILL AS INTRODUCED/AMENDED _____ STILL APPLIES.

OTHER - See comments below.

SUMMARY OF BILL

Under the Personal Income Tax Law (PITL), this bill would allow a 100% credit for up to \$200 of qualifying educational expenses paid or incurred by a parent or a teacher at a qualifying educational institution.

SUMMARY OF AMENDMENT

The March 13, 2000, amendment:

- ♦ limits the credit to taxable years beginning before January 1, 2005, and provides a repeal date of December 1, 2005.
- ♦ requires the Franchise Tax Board to report, upon request of a committee appointed by the Legislature, the total amount of tax credits claimed pursuant to this bill.

This amendment resolved one policy consideration regarding the repeal date. The remaining policy, implementation and technical considerations identified in the analysis of the bill as introduced still apply. A new implementation consideration has been identified, and the previous implementation and technical considerations are restated below for convenience.

Implementation Considerations

This bill does not limit the number of years for the credit carryover. Experience has shown that most credits are exhausted within eight years. Without a carryover limitation, the credit indefinitely remains on the tax return.

Board Position:

<u> </u> S	<u> </u> NA	<u> </u> NP
<u> </u> SA	<u> </u> O	<u> </u> NAR
<u> </u> N	<u> </u> OUA	<u> X </u> PENDING

Legislative Director

Date

Johnnie Lou Rosas

3/20/00

Because this bill does not require certification of the qualifying amounts paid or incurred and no relationship is required between the student and the taxpayer claiming the credit, this credit would be difficult for the department to verify at audit. Additionally, because this broad-based credit potentially would be claimed by more than two million taxpayers, it would likely not be practical to require schools to provide certification of this credit.

Technical Considerations

In the authorization paragraph, this bill allows a credit for qualified educational expenses that are paid or incurred by a teacher or parent "at a qualifying educational institution." This language could limit qualifying expenses to those incurred exclusively at the qualifying educational institution (such as through an on-campus bookstore), while precluding purchases from other off-campus sources (e.g., retail establishments). The author may wish to consider specifying that the expenses are "for qualified educational expenses for use at a qualifying educational institution."

In the definition of "qualified educational expenses," "(2)" is missing before "Qualifying educational institution".

BOARD POSITION

Pending.